



ROTHMANS OF PALL MALL CANADA LIMITED



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FOR THE SIX MONTHS ENDED
DECEMBER 31, 1974

ROTHMANS OF PALL MALL CANADA LIMITED
AND SUBSIDIARY COMPANIES

Consolidated Statement of Earnings

(Unaudited)
(in thousands of dollars)

	Six Months Ended December 31					
	Tobacco		Brewing		Total	
	1974	1973	1974	1973	1974	1973
Income:						
Sales	\$174,004	\$157,901	\$239,374	\$220,812	\$413,378	\$378,713
Excise and sales taxes	99,175	93,625	77,713	77,551	176,888	171,176
	74,829	64,276	161,661	143,261	236,490	207,537
Investment and other income	—	—	1,517	2,134	1,517	2,134
Foreign exchange loss	—	—	(184)	(2,306)	(184)	(2,306)
	74,829	64,276	162,994	143,089	237,823	207,365
Costs	59,796	52,190	163,471	143,388	223,267	195,578
	15,033	12,086	(477)	(299)	14,556	11,787
Income taxes	6,630	5,257	1,859	1,095	8,489	6,352
	8,403	6,829	(2,336)	(1,394)	6,067	5,435
Minority interest	—	—	567	78	567	78
Earnings before extraordinary items	8,403	6,829	(1,769)	(1,316)	6,634	5,513
Extraordinary items, less minority interest	—	—	—	376	—	376
Earnings for the period	\$ 8,403	\$ 6,829	\$ (1,769)	\$ (940)	\$ 6,634	\$ 5,889
Earnings per Common share (Note)						
Before extraordinary items					\$ 1.21	\$ 1.08
After extraordinary items					\$ 1.21	\$ 1.32

NOTE:

During the six months ended December 31, 1974, a total of 2,953,988 Second and Third Preferred shares were converted into 2,953,948 Common shares. The 1974 earnings per Common share figures have been calculated using the weighted average number of shares outstanding during the period after giving effect to these conversions as at the termination date (September 17, 1974) of their Preferred dividend obligation.

If the above shares had been converted as at July 1, 1974, earnings per Common share for the six months would have been \$1.06 (1973—\$0.89).

Assuming exercise of the outstanding warrants and conversion of all Second and Third Preferred shares as at July 1, 1974, earnings per Common share on a fully diluted basis would have been \$0.98.

ROTHMANS OF PALL MALL CANADA LIMITED
AND SUBSIDIARY COMPANIES

Consolidated Statement of Changes in Financial Position

(Unaudited)
(in thousands of dollars)

	Six Months Ended December 31	
	1974	1973
Working capital was increased by:		
Earnings before extraordinary items.....	\$ 6,634	\$ 5,513
Depreciation.....	6,784	6,504
Minority interest in earnings before extraordinary items.....	(567)	(78)
Other items not requiring working capital.....	1,117	163
Funds from operations.....	13,968	12,102
Proceeds on disposal of property, plant and equipment and investments and other assets.....	711	771
Proceeds on disposal of Atlanta brewery.....	—	4,211
	<u>14,679</u>	<u>17,084</u>
Working capital was decreased by:		
Property, plant and equipment additions.....	8,225	6,819
Retirement of long term debt.....	799	3,104
Dividends on Preferred shares.....	2,787	3,775
Dividends on Common shares.....	770	401
Dividends paid by subsidiary companies to minority shareholders.....	1,152	1,183
Purchase of First Preferred shares.....	6	463
Other.....	79	136
	<u>13,818</u>	<u>15,881</u>
Increase in working capital.....	861	1,203
Working capital at beginning of period.....	61,489	67,240
Working capital at end of period.....	<u>\$ 62,350</u>	<u>\$ 68,443</u>

To Our Shareholders:

During the six months ended December 31, 1974, record sales revenue and earnings were again achieved in tobacco operations but further operating losses were incurred by Carling O'Keefe Limited. Excluding extraordinary items, consolidated earnings were \$6,634,000 compared to \$5,513,000 in 1973. After providing for Preferred share dividends, earnings per Common share were \$1.21 (on a weighted average of 3,289,657 Common shares outstanding) compared to \$1.08 in 1973 (on 1,603,980 shares).

Including extraordinary items, consolidated earnings increased to \$6,634,000 from \$5,889,000 last year. However, because of the significantly larger number of Common shares outstanding in 1974, earnings per Common share including extraordinary items decreased to \$1.21 from \$1.32 in 1973.

Consolidated sales for the six months were \$413,378,000 compared to \$378,713,000 in 1973, an increase of 9.2 percent. Tobacco sales increased by \$16,103,000 and Carling O'Keefe Limited sales increased by \$18,562,000.

The Company has filed a prospectus for the issue of \$20 million 11% Sinking Fund Debentures, Series B, to be dated February 20, 1975. The estimated net proceeds of \$19,510,000 will be used by the Company to reduce bank indebtedness and unsecured notes payable incurred principally to finance inventories and accounts receivable.

TOBACCO OPERATIONS:

Earnings after income taxes were \$8,403,000 compared to \$6,829,000 last year, an increase of 23.0 percent. Earnings before income taxes improved by 24.4 percent.

Sales revenue for the six months was \$174,004,000, an increase of 10.2 percent from 1973. The increase was primarily attributable to higher unit cigarette sales and price increases effected during 1974. Selling prices were raised April 1 and September 30 to cover increases in manufacturers' costs. The recent federal budget

imposed additional excise duty and sales tax on all tobacco products and these changes were passed on to our customers on December 2.

The Company's unit cigarette sales grew by 365 million or 4.4 percent during the six months ended December 31, 1974 (8,598 million compared to 8,233 million in 1973). Industry cigarette sales during the same period increased to 30,959 million from 29,728 million last year, or 4.1 percent. Sales and market shares in the cigarette industry have shown wide fluctuations during the period due to the various selling price adjustments.

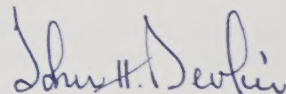
BREWING OPERATIONS:

Carling O'Keefe Limited, like other companies in the brewing industry, continued to be adversely affected by spiralling costs, particularly of agricultural raw materials. Price adjustments received to date have been insufficient to offset these cost increases.

Excluding extraordinary items, Carling O'Keefe incurred a loss of 16.2 cents per common share for the six months ended December 31, 1974, compared to a loss of 12.1 cents in 1973. Sales revenue of \$239,374,000 was up by 8.4 percent from last year, primarily as a result of selling price increases obtained during 1974. Beer sales volume in Canada and Ireland was virtually unchanged from last year, but sales volume in the United States continued to decline.

Including extraordinary items, the Carling O'Keefe Limited loss of 16.2 cents in 1974 compared to a loss of 8.6 cents in 1973. An extraordinary gain of \$750,000 (3.5 cents) was recorded in 1973 on the sale of the Atlanta, Georgia brewery.

A copy of the Carling O'Keefe report to shareholders for the period ended December 31, 1974 is enclosed for your information.



February 17, 1975

Chairman of the Board